Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of		
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Federal-State Joint Conference on Accounting Issues	)	**WC Docket No. 02-269**
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WORLDCOM COMMENTS

WorldCom, Inc. (WorldCom) hereby submits its comments on the issues raised by the Commission's December 12, 2002 Public Notice in the above-captioned proceeding.[1] In the Public Notice, the Federal-State Joint Conference on Accounting Issues (Joint Conference) seeks public comment with respect to comprehensive review of regulatory accounting and related reporting requirements.

In convening the Joint Conference, the Commission has recognized that federal and state regulators have a "common goal" in ensuring that regulatory accounting information is both adequate and accurate.[2] While, as the Notice points out, federal and state regulators' responsibilities differ to some extent, Section 11 of the 1996 Act does not compel the Commission to focus solely on whether federal regulators use particular accounts or information on a day-to-day basis. Indeed, such an approach would be inconsistent with Section 220(i) of the Act, which specifically requires the Commission to "receive and consider" the views of state commissions before modifying accounting rules. Furthermore, as Commissioner Copps has pointed out, in many instances the states are using regulatory

[1] Public Notice, DA 02-3449, December 12, 2002.
[2] Public Notice at 2.

accounting information to carry out their mandate under the federal Telecommunications Act.[3] And, in other instances, the differences in state and federal regulators' responsibilities are so modest that those differences can be easily accommodated within a uniform accounting system. The Commission should, for example, retain accounts that state regulators require (such as Directory Revenues),[4] even when those accounts are of lesser importance to the Commission.

The purpose of the Commission's accounting rules is to ensure that the Commission and state regulators have available to them accounting information that enables them to carry out their regulatory responsibilities. Those regulatory responsibilities include (1) the allocation of dominant carriers' costs between regulated and nonregulated activities; (2) jurisdictional separations; (3) the calculation of universal service support; (4) the calculation of input values used in the universal service cost model; (5) the determination of dominant carriers' interstate access charges (including exogenous adjustments and above-cap filings);[5] (6) the calculation of local service rates; and (7) the evaluation of UNE and interconnection rate proposals in arbitration proceedings.[6]

For the most part, the financial information that dominant carriers report to the SEC is <u>not</u> sufficient for the Commission and the states to carry out their regulatory responsibilities. The Commission and the states require information that is both more detailed and specialized than is provided with financial reporting, such as investment data that distinguishes between switch and circuit equipment investment. The Commission and

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[3] 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers, <u>Report and Order</u>, 16 FCC Rcd 19913 (2001) (<u>Phase II Order</u>), Separate Statement of Commissioner Michael J. Copps.
[4] Public Notice at 3.
[5] <u>Phase II Order</u> at ¶¶ 10-12.

the states also require greater consistency and uniformity in ILEC accounting practices than would be the case under GAAP by itself.

In the past few months alone, there have been several instances in which the Commission or the customers of dominant carriers relied on information available only as the result of the Commission's accounting rules:

- In the Commission's December, 2002 "Policy Statement" regarding security deposit tariffs, the Commission used Part 32 account information reported in ARMIS to question ILEC claims that their uncollectibles had reached unsustainable levels.[7] Such uncollectibles data is not generally reported to the SEC. The Commission also relied on rate of return data computed pursuant to the Commission's accounting rules.[8]
- In October, 2002, AT&T filed a petition for rulemaking that used ARMIS data showing dramatic increases in ILEC special access rates of return to seek reform of the Commission's rules governing ILEC special access pricing.[9] Such service-specific rate of return data is not generally reported to the SEC.

The ILECs' relentless campaign to eliminate the Commission's accounting rules is driven by the desire to avoid such inconvenient scrutiny of their rates and practices. As dominant carriers, the ILECs' overriding objective is to reduce or, preferably, eliminate any regulatory oversight that precludes them from exercising their market power. One of the

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[6] Id. at ¶ 20.
[7] Verizon Petition for Emergency Declaratory and Other Relief, Policy Statement, WC Docket No. 02-202, released December 23, 2002, at ¶ 16, Appendix B.
[8] Id. at ¶ 18.
[9] See Public Notice DA 02-2913, October 29, 2002.

best ways for the ILECs to reduce regulatory oversight is to deprive regulators of accurate and sufficiently detailed information about the ILECs' financial performance.

Fortunately, the Commission's biennial review orders[10] have rejected the ILECs' most extreme demands, choosing instead to take a somewhat more targeted approach that analyzed whether specific rules were still necessary in light of such developments as the passage of the 1996 Act or the elimination of sharing from the Commission's price cap rules. In some instances, those orders went too far, eliminating accounts or rules that are in fact required by state commissions or even by the Commission itself. However, the 1998 and 2000 biennial review orders generally strike a reasonable balance between the needs of regulators and any burdens placed on the ILECs.[11]

Given that the current accounting rules generally strike a reasonable balance, the Joint Conference should recommend to the Commission that it undertake no significant further reductions in ILEC accounting requirements for the foreseeable future. The current rules are the product of top-to-bottom reviews of the depreciation rules, chart of accounts, affiliate transactions rules, cost allocation rules, and other components of the accounting regime.[12] In light of the fact that these top-to-bottom reviews took into account all significant recent developments, such as the passage of the Telecommunications Act of 1996 and the elimination of sharing from the Commission's price cap rules, further streamlining would not be warranted unless there is a dramatic change in market conditions.

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[10] Phase II Order; 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, Report and Order, 14 FCC Rcd 11443 (1999); 1998 Regulatory Biennial Review – Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, Report and Order, 14 FCC Rcd 11396 (1999); 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, 16 FCC Rcd 4083 (2000);

[11] See, e.g., Phase II Order at ¶ 2.

[12] See n.10, supra.

Accordingly, the Joint Conference should recommend that the Commission terminate its "Phase III" proceeding, and should recommend that the core requirements of Part 32 and Part 64 be retained until an ILEC has been declared nondominant for all services. As long as an ILEC remains dominant in the provision of interstate services, i.e., possesses market power, the accounting rules remain necessary for ensuring that rates remain just and reasonable. Among other things, the Part 32 USOA restrains an incumbent LEC's ability to charge monopoly prices because it provides ratepayers with information that can be used to pursue a complaint against unjust and unreasonable rates, or to challenge tariff filings. A policy of retaining the core requirements of Part 32 and Part 64 as long as an ILEC remains classified as a dominant carrier would be consistent with the Commission's treatment of AT&T.

Furthermore, the Joint Conference should recommend that the Commission not eliminate the core requirements of Part 32 or Part 64 unless it has first determined that sections 251(c) and 271 of the Act have been fully implemented. The Part 32 and Part 6 accounting rules play an essential role in the implementation of both section 251(c) and the section 271/272 framework that governs RBOC in-region interLATA services. In the case of Section 251, the Commission has noted that Part 32 accounting data has often been used on a comparative basis in state UNE pricing proceedings.[13] In the case of sections 271 and 272, the Commission has determined that its Part 32 and Part 64 rules are necessary to the implementation of section 272.[14]

[13] Phase II Order at ¶ 20.
[14] Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, Report and Order, CC Docket No. 96-150, 11 FCC Rcd 17539 (1996).

Finally, the Joint Conference should reiterate that, in evaluating whether to significantly modify the core requirements of Part 32 and Part 64 for a particular carrier, the Commission should give significant weight to the views of relevant state commissions. Section 220(i) of the Communications Act requires the Commission to "receive and consider" the views of state commissions having jurisdiction with respect to the carrier involved before modifying the applicable accounting requirements.[15] Any significant modifications to the accounting rules would have a direct impact on the states because (1) the states generally use the USOA for intrastate ratemaking; (2) the Part 32 accounts are the starting point for the separations process; (3) the Commission's cost allocation rules and affiliate transactions rules are applied pre-separations; and (4) the states often use Part 32 pricing data in UNE pricing cases.

Respectfully submitted,
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[15] 47 U.S.C. § 220(i).